



FOR IMMEDIATE RELEASE

April 14, 2006

FACT SHEET

SANDERS RELEASES STRUCTURALLY SOUND, HONEST BUDGET **\$3 BILLION FY07 BUDGET PROPOSAL FUNDS LONG-IGNORED** **PRIORITIES LIKE PENSION SYSTEM, POLICE & FIRE, DEFERRED** **MAINTENANCE AND RESERVES**

Budget Proposal Important Element of Mayor's Fiscal Recovery Plan

Capping a week of budget announcements, Mayor Jerry Sanders today released his proposed FY07 budget, the first under the City's new strong mayor system. The total combined budget for FY07 is \$3 billion including \$1.3 billion for General Fund operations. The budget proposal is an important element of the Mayor's Fiscal Reform Plan announced Monday.

At one volume, the Mayor's budget proposal is easy to read and user-friendly unlike the budgets of the past.

Budget Elements

- Structurally sound and honest budget. True Revenues and expenses are reflected in the budget.
 - Budget incorporates and funds phantom or supplemental employees in the personnel budgets of each department (269.26 positions costing \$33.7 million in the General Fund).
 - Budget funds police department overtime (\$8.6 million) so that the department can staff to 2,100 officers. The practice of balancing a budget by hiding overtime expenses will not continue.

- Increasing the budgets of the San Diego Police and Fire departments by \$38 million to address long-ignored needs.
- No further cuts to the parks and library departments as well as cultural and economic development programs funded by the City.
- Funds a portion of the City's backlog of deferred maintenance: \$20 million.
- Increases our rainy-day reserves by contributing \$22 million.
- Funding Retiree Health on a "pay as you go" basis (\$21 million) this year while also contributing \$5 million to establish an interest bearing special fund.

Pension System Contributions

- **FY07 Budget includes the full \$163 million contribution to the beleaguered Pension System.**
 - **Nothing will happen to that money – it will not be spent or otherwise committed – until details, like the City's ability to access the public credit markets, are determined.**
 - City will hire its own actuary so that we verify the Pension Obligation that will appear in our financial statements.
- The Mayor plans to contribute an amount greatly in excess of \$163 million to the Pension Fund in FY07 by proposing that the Council issue \$374 million in Pension Obligation Bonds.

Over the course of three fiscal years (FY06, FY07 and FY08), the Mayor is proposing to infuse the Retirement System with **\$856.1 million in cash** in order to reduce the \$1.4 billion deficit as follows.

FISCAL YEAR	FUNDING RECOMMENDATION	AMOUNT		
FY06	Tobacco Securitization	\$100 million		
	Remainder of Employee Pickup	\$7 million		
	FY06 Sub-Total	\$107 million	\$107 million	68% funded
FY07	Normal Costs	\$85.8 million		
	Pension Obligation Bonds	\$300 million		
	Employee Leverage POB	\$74 million		
	FY07 Sub-Total	\$459.8 million	\$459.8 million	79.15% funded
FY08	Normal Costs (estimated)	\$89.3 million		
	Pension Obligation Bonds	\$200 million		
	FY08 Sub-Total	\$289.3 million	\$289.3 million	83.72% funded
	TOTAL	\$856.1 million	\$856.1 million	

- For FY07, the Mayor proposes to contribute the required \$81 million in normal costs (of the \$163 million) on July 1. This is the City's required yearly payment. This payment cannot be leveraged to obtain additional financing.
- So that the City can contribute more money to the pension system, Mayor Sanders proposes to use \$30 million of the remaining amount to issue Pension Obligation Bonds.

An infusion of cash into the system would reduce the deficit. This transaction is obviously premised on our ability to re-access the public credit markets this fiscal year.

- The difference in funds would be used to supplement the City's long-ignored deferred maintenance problems and to fund reserves.
- **If for any reason, we cannot proceed with the Pension Obligation Bond transaction, we would contribute the full \$163 million to the pension system.**
- Accordingly, if we are not able to proceed with the bonds, the City would not be able to fund its reserves this year or take care of as large a portion of the deferred maintenance as the Mayor would like.
- There would not be any other ramifications associated with the Mayor's proposal. The rest of the budget is sound and untouched.

Sanders on his Financial Recovery Plan

"Some have said that Pension Obligation Bonds will be an unjust imposition on our children – that we are mortgaging our children's future. That argument suggests there is no debt. Obviously, that is not the case.

"We mortgaged our children's future in 1996 and 2002 when the pension benefits were agreed to and we didn't have the revenues to support those obligations. What we're talking about now is how we pay for those decisions.

"There are no easy answers to the set of problems that we face. What I am recommending is a work-out plan. It is no different that when individuals consolidate their personal debt in order to obtain more advantageous payment terms.

"My plan offers constructive solutions to our problems. The debt isn't going to go away. We can ring our hands but the debt it isn't going to get smaller by wishing it to be that way.

"To those who will oppose it, I say: don't just say no. Put yourself on the spot and propose solutions first before you say no."

Mayor Jerry Sanders

Unmet Needs

The City faces a very challenging financial environment. Limited financial resources will not allow the City to fund a wide array of budgetary priorities. The following needs will go unmet in the Mayor's FY07 Budget:

- The vast majority of the City's deferred maintenance, including \$7.10 in police department and \$10.58 million in fire department projects. (The Mayor is dedicating \$6 million this year toward improvements at fire stations.)
- Funding infrastructure needs to accommodate San Diego's growth.
- Funding service cuts that were made over the past 3 years.
- Fully funding reserves.
- Fully funding IT needs.
- Fully funding the needs of our Fire Department.
- Fully funding the Retiree Healthcare.

Mayor Jerry Sanders
Budget Launch Remarks
Friday, April 14, 2006

- History is being made today with my release of the City's FY07 budget; the first to be presented under the City's new strong mayor form of government.
- The budget is one important element of the Financial Recovery Plan that I announced earlier this week.
- The total combined budget for FY07 is \$3 billion including \$1.3 billion for General Fund operations.
- As you have probably already noticed, this budget publication is streamlined in comparison to prior years.
- Compare this to the volumes of material – all unnecessarily complex – that the City put out in the past. I think citizens will find it a welcome change.
- This year, the budget is presented in a single volume. It is streamlined and in a reader-friendly format.
- Also this year, for the first time, there will be a citizens' budget guide published in the San Diego Union Tribune this Sunday.
- Later this afternoon, the budget will be posted on the City's website at www.sandiego.gov.
- There will also be a number of public meetings – a schedule has been distributed -- to which our citizens are invited to make their views known.
- I believe that my budget proposal will get the city moving again in the right direction and will bring fundamental change to City Hall.
- But it is important for our citizens to know and understand that no budget can solve, in twelve months, the problems that were created as a result of decades worth of neglect.
- I must make clear at the outset that our financial picture is not good. I have very serious concerns about the long-term liabilities the City has created. We must address them.
- During my State of the City address in January, I promised that I would release an honest, transparent and structurally sound budget and I believe we have achieved that goal.

- The table next to me is perfectly representative of the budgets put out by the City manager in the past: hear no evil, speak no evil, see no evil.
- Unlike those budgets of the past – budgets that were designed solely to balance -- this budget accurately projects City revenues and expenses.
- Elements of my budget include:
- Incorporating and funding phantom or supplemental employees in the personnel budgets of each department. The practice of not funding supplemental employees to make the budget balance will not continue.
- Fully funding police department overtime so that the department can staff to 2,100 officers. The practice of balancing a budget by hiding overtime expenses will also not continue.
- Increasing the budgets of the San Diego Police and Fire departments by \$38 million to address long-ignored needs;
- No further cuts to the parks and library departments as well as cultural and economic development programs funded by the City;
- Funding a portion of the City's backlog of deferred maintenance; and increasing our rainy-day reserves.
- This budget also includes a substantial contribution to the beleaguered Pension System. Let me speak to those issues for a moment.
- I want to be clear on a few things. The full \$163 million that has been established by the Pension Board as the Actuarially Required Contribution is included in my budget.
- Let me repeat that again, just so everyone is crystal clear on this point: the full \$163 million payment to the Pension System is included in my budget.
- Nothing will happen to that money – it will not be spent or otherwise committed – until we sort out a few details like our ability to access the public credit markets.
- Let me repeat that as well: Nothing will happen to that money – it will not be spent or otherwise committed – until we sort the details.
- I realize that a limited number of people have raised questions about that number. Because of that, I plan for the City to hire its own actuary so that we verify the number that will appear in our financial statements.
- You all know that we received that number relatively late this year – March 19th. I have inserted that number in the budget.

- But I also would like to make this discussion a largely academic argument by contributing an amount greatly in excess of \$163 million to the Pension Fund. Under my proposal, we would do this by issuing Pension Obligation Bonds.
- My proposal is to contribute the required \$81 million in normal costs on July 1. This is our required yearly payment. This payment cannot be leveraged to obtain additional financing.
- So that we can contribute more money to the pension system, my proposal is to use \$30 million of the remaining amount to issue Pension Obligation Bonds.
- We have been assured by outside bond counsel that the liability portion of the pension payment can in fact be leveraged to make a more substantial contribution to the system. We have been told that it is legal.
- An infusion of cash into the system would reduce the deficit. This transaction is obviously premised on our ability to re-access the public credit markets this fiscal year. I believe we will do so.
- The difference in funds would be used to supplement our long-ignored deferred maintenance problems and to fund our reserves.
- My budget is structurally sound. If for any reason, we cannot proceed with the Pension Obligation Bond transaction, we would contribute the full \$163 million to the pension system.
- Accordingly, if we are not able to proceed with the bonds, we would not be able to fund our reserves this year or take care of as large a portion of the deferred maintenance as I would like.
- There would not be any other ramifications associated with my proposal. The rest of the budget is sound and untouched.
- Some have said that Pension Obligation Bonds will be an unjust imposition on our children – that we are mortgaging our children’s future. That argument suggests there is no debt. Obviously, that is not the case.
- We mortgaged our children’s future in 1996 and 2002 when the pension benefits were agreed to and we didn’t have the revenues to support those obligations. What we’re talking about now is how we pay for those decisions.
- There are no easy answers to the set of problems that we face. What I am recommending is a work-out plan. It is no different that when individuals consolidate their personal debt in order to obtain more advantageous payment terms.
- My plan offers constructive solutions to our problems. The debt isn’t going to go away. We can ring our hands but the debt it isn’t going to get smaller by wishing it to be that way.

- To those who will oppose it, I say: don't just say no. Put yourself on the spot and propose solutions first before you say no.
- I expect and encourage the City Council to have a hearty and well informed debate on this proposal. They should.
- In the spirit of full disclosure and transparency, everyone – every single member of the City Council and the public -- should be fully aware of the risks associated with my proposal. And accordingly, of the risks of doing nothing.
- I believe the risks of my proposal are manageable but the Council will need to make their own judgment.
- I would expect the Council to discuss the ARC number. I would expect them to ask plenty of questions about the risks inherent to Pension Obligation Bonds. I think these discussions will be very productive and will lead us to a better outcome.
- As I said previously, while my budget begins to address some of the significant issues facing the City, our citizens deserve to know that there are still a number of areas that will have to be addressed during the coming year.
- These include restoring service cuts; deferred maintenance; adequate funding for retiree medical costs; and improved fiscal policies and internal controls to insure that the problems which have crippled the City over the past few years do not happen again.
- During the next three years, we plan to examine and redesign virtually every process and system of City government. When combined with the Managed Competition reform I've proposed for the November ballot, we will have the tools to create a new model for effective city government.
- One of my key priorities this coming fiscal year will be to regain access to the public credit markets. Our ability to bond for major infrastructure projects will be critical to our ability to get the City back on track.
- I look forward to working with the City Council as they consider and eventually adopt a budget for the coming fiscal year.
- I also look forward to the public's critical input as part of this important civic process.
- What I offer you today is the promise, after years of distrust, that our city can once again begin to earn the trust of its citizens.

